

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 STRE-00 AGRE-00 AID-05 CEA-01  
CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 CIEP-01  
SP-02 STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 ITC-01 L-03  
/066 W

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R 101726Z DEC 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 2547

INFO ALL EC CAPITALS 2848

USDEL MTN GENEVA

US MISSION GENEVA 7165

US MISSION OECD PARIS 3782

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 12139

PASS AGRICULTURE ELECTRONICALLY AND STR ELECTRONICALLY

E.O. 11652: N/A

TAGS: EAGR, EEC, ETRD

SUBJECT: EC COMMISSION PROPOSAL FOR ALCOHOL CAP

REF: (A) EC BRUSSELS 11775, (B) EC BRUSSELS 9145, (C) EC BRUSSELS 118

60

BEGIN UNCLASSIFIED

1. SUMMARY: THE COMMISSION -APPROVED CAP PROPOSAL ON ALCOHOL HAS THE SAME GUIDING PRINCIPLES FOR A COMMON ORGANIZATION AS EARLIER DRAFT OF THIS YEAR; NAMELY, LIMITS ON AGRICULTURAL ALCOHOL PRODUCTION, FIXED PRICES FOR AGRICULTURAL ALCOHOL, INTERVENTION PURCHASES, RESERVED MARKET OUTLETS, TAX AND SUBSIDY SYSTEM TO MAINTAIN PRICES OF ALL TYPES OF AGRICULTURAL ALCOHOL FOR DRINKING AT ABOUT THE TARGET PRICE LEVEL OF GRAIN-BASED ALCOHOL, IMPORT LEVIES, AND EXPORT SUBSIDIES. CHIEF AMONG THE CHANGES BETWEEN THE FINAL PROPOSAL AND EARLIER DRAFT REPORTED ARE: MOLASSES-BASED ALCOHOL NO LONGER HAS GUARANTEED VOLUME OR INTERVENTION PURCHASES, PERFUME AND COSMETICS ARE EXCLUDED AS COMMUNITY RESERVED SECTORS FOR AGRICULTURAL

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ALCOHOL, EQUALIZATION TAXES AND INTERVENTION CONTRIBUTIONS ARE

APPLIED TO IMPORTED ETHYL ALCOHOL AND SPIRITUOUS BEVERAGES,  
EXPORT SUBSIDIES ARE MORE APPARENT AND APPLY TO GRAIN-BASED  
SPIRITUOUS BEVERAGES. END SUMMARY.

2. WE HAVE OBTAINED A COPY OF THE COMMISSION-APPROVED CAP  
PROPOSAL ON ALCOHOL (REF. A). THE PROPOSAL IS LARGELY THE  
SAME AS THE DRAFT THAT WAS REPORTED (REF. B) WITH THE FOLLOWING  
EXCEPTIONS:

A. THE LIST OF ALCOHOL-PRODUCING RAW MATERIALS HAS BEEN  
BROADENED; IN SOME CASES WHOLE CXT CHAPTERS ARE INCLUDED INSTEAD  
OF SELECTED FOUR-DIGIT TARIFF CLASSIFICATIONS.

B. THERE WILL NO LONGER BE MINIMUM PRICES FIXED FOR  
AGRICULTURAL RAW MATERIALS USED FOR DISTILLATION (CAP ORGANIZATIONS  
FOR THE RESPECTIVE COMMODITIES PROVIDE ALREADY EFFECTIVE  
FLOOR PRICE LEVELS IT WAS THOUGHT); HOWEVER, THERE ARE "TARGET"  
PRICES ("INTERVENTION" PRICES IN THE EARLIER DRAFT) FOR EACH  
TYPE OF AGRICULTURAL ETHYL ALCOHOL.

C. THE TARGET PRICE FOR ALCOHOL FROM MOLASSES WILL BE BASED  
ON THE EC AND WORLD MARKET PRICES FOR SYNTHETIC  
(I.E., NONAGRICULTURAL) ETHYL ALCOHOL. MOLASSES ALCOHOL  
IS EXCLUDED FROM THE SUPPORT MEASURES ENVISAGED IN THIS PROPOSAL  
BECAUSE OF ITS COMPETITIVENESS WITH OTHER AGRICULTURAL ALCOHOL.

D. THE TARGET PRICE FOR ALCOHOL OBTAINED FROM WINE  
UNDER THE INTERVENTION MEASURES OF THE WINE CAP WILL BE BASED  
ON THE SELLING PRICE FIXED FOR AGRICULTURAL ETHYL ALCOHOL  
FOR DRINKING, WHICH IN TURN IS BASED ON THE TARGET PRICE FOR  
GRAIN-BASED ETHYL ALCOHOL.

E. ALCOHOL BOUGHT IN BY INTERVENTION AGENCIES WILL BE  
DISPOSED OF IN THE RESERVED SECTORS AT THE FIXED SELLING PRICES.  
THE PREVIOUS DRAFT ONLY ALLOWED MARKETING IN RESERVED SECTORS  
IN SPECIAL CASES. MARKETING IN NONRESERVED SECTORS

IF NECESSARY, CAN STILL BE DONE VIA TENDERING.

F. PERFUME AND COSMETICS ARE NO LONGER INCLUDED AS RESERVED  
SECTORS, I.E., SECTORS WHICH CAN USE ALCOHOL ONLY OF AGRICULTURAL  
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ORIGIN. MEMBER STATES WHICH CHOOSE TO CAN INCLUDE FOR UP TO  
5. YEARS PERFUME AND COSMETICS AS RESERVED SECTORS FOR PRODUCTION  
WITHIN THEIR MEMBER STATES. FRANCE AND ITALY WOULD BE EXPECTED  
TO AVAIL THEMSELVES OF THIS PROVISION.

G. DISTILLERIES CAN NO LONGER DEDUCT SURPLUS PRODUCTION  
ABOVE THEIR GUARANTEED VOLUME FOR THE SEASON FROM THE NEXT  
YEAR'S GUARANTEED VOLUME LEVEL.

H. WHEN FIXING THE GUARANTEED QUANTITY FOR EACH OF THE SPIRITUOUS BEVERAGES OBTAINED FROM RAW MATERIALS OBTAINED, OR HARVESTED IN THE EC, ACCOUNT WILL BE TAKEN OF PRODUCTION, MARKETING, AND STOCKS OF THE LAST 5 YEARS. NO LONGER IS THERE PROVIDED AN ANNUAL GROWTH RATE OF UP TO 5 PERCENT.

I. MEMBER STATES CAN ALLOCATE GUARANTEED QUANTITIES AMONG DISTILLERIES FOR UP TO 5 YEARS. AFTERWARDS THIS WILL BE DONE BY A MANAGEMENT COMMITTEE.

J. A DISTILLERY CAN TRANSFER TOTALLY OR PARTIALLY ITS GUARANTEED VOLUME TO ANOTHER DISTILLERY.

K. THERE WILL BE AN EQUALIZATION TAX CHARGED ON THE ALCOHOLIC CONTENT OF SPIRITUOUS BEVERAGES CONSUMED IN THE EC, INCLUDING IMPORTED SPIRITUOUS BEVERAGES (THIS CHARGE WILL BE OVER AND ABOVE THE IMPORT LEVY); HOWEVER, THE COMPENSATORY SUBSIDY WILL BE GRANTED ONLY TO EC PRODUCERS OR SPIRITUOUS BEVERAGES. THE EQUALIZATION TAX/COMPENSATORY SUBSIDY SYSTEM IS AIMED AT TAXING LOWER-PRICES AGRICULTURAL ALCOHOL (E.G., OBTAINED FROM MOLASSES), AND SUBSIDIZING HIGHER-PRICED AGRICULTURAL ALCOHOL (E.G., OBTAINED FROM FRUITS) DOWN TO THE TARGET PRICE LEVEL OF GRAIN-BASED ALCOHOL.

L. IMPORTED ETHYL ALCOHOL AND SPIRITUOUS BEVERAGES WILL NOW BE SUBJECT ALONG WITH SUCH EC-PRODUCED PRODUCTS TO THE SO-CALLED "INTERVENTION CONTRIBUTION" (PARAGRAPH 14, REF. B). EXPORTS AND ALCOHOL FOR INDUSTRIAL USE CAN BE EXEMPTED FROM THIS CONTRIBUTION. THE LEVEL OF THIS CHARGE WILL BE BASED ON THE SUPPLY/DEMAND SITUATION OF SUCH PRODUCTS IN THE EC. THE INTERVENTION CONTRIBUTION IS AIMED ON THE ONE HAND, AT HELPING TO DEFRAID THE COSTS OF THE CAP SUPPORT MEASURES, AND ON THE OTHER, LIMITED OFFICIAL USE

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TO BRACK PRODUCTION AND CONSUMPTION IF NECESSARY.

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CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 CIEP-01  
SP-02 STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 ITC-01 L-03  
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R 101726Z DEC 76  
FM USMISSION EC BRUSSELS  
TO SECSTATE WASHDC 2548  
INFO ALL EC CAPITALS 2849  
USDEL MTN GENEVA  
US MISSION GENEVA 7166  
US MISSION OECD PARIS 3783

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PASS AGRICULTURE ELECTRONICALLY AND STR ELECTRONICALLY

M. INSTEAD OF THE NORMAL CXT DUTY RATE, AN IMPORT LEVY WILL APPLY TO AGRICULTURAL ETHYL ALCOHOL AND SPIRITUOUS BEVERAGES AT LEAST EQUAL TO THE PREVIOUS CUSTOMS DUTIES, BUT FOR SPIRITUOUS BEVERAGE NOT TO EXCEED GATT-BOUND DUTY LEVELS. SPECIAL PROVISIONS WILL BE WORKED OUT FOR EC PREFERENTIAL SUPPLIERS. THE VARIABLE ELEMENT OF THE LEVY ON ETHYL ALCOHOL WILL BE BASED ON (A) THE AVERAGE PROTECTION DURING THE PREVIOUS SEASON ON AGRICULTURAL RAW MATERIALS NEEDED TO PRODUCE ONE HECTOLITER OF PURE ALCOHOL IN THE COMMUNITY OR ON THE SUGAR CONTENT OF THESE RAW MATERIALS, AND (2) AN AMOUNT EQUAL TO AT LEAST 50 PERCENT OF THE APPLICABLE CUSTOMS DUTY THE DAY BEFORE THE CAP ENTERS IN EFFECT. THE VARIABLE ELEMENT ON IMPORTED SPIRITUOUS BEVERAGES WILL BE BASED ON THE ABOVE ELEMENT (1) ADJUSTED BY QUALITY COEFFICIENTS. THESE COEFFICIENTS WOULD MEAN HIGHER PROTECTION FOR PRODUCTS WHICH USED HIGH-QUALITY ALCOHOL-PRODUCING RAW MATERIALS.

N. THERE IS NO LONGER A PROVISION FOR "PRODUCTION SUBSIDIES" ON GRAIN-BASED SPIRITUOUS BEVERAGES PROVIDED 50 PERCENT ARE EXPORTED. INSTEAD, THESE PRODUCTS ARE INCORPORATED INTO THE GENERAL PROVISIONS FOR EXPORT SUBSIDIES TO COVER DIFFERENCES  
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IN EC AND WORLD MARKET PRICES FOR ALCOHOL OR ALCOHOL-PRODUCING RAW MATERIAL. PRODUCTIONS SUBSIDIES CAN REPLACE EXPORT SUBSIDIES; HOWEVER, IN CERTAIN CASES WHERE EXPORT SUBSIDIES WOULD "POSE DIFFICULTIES FOR AGRICULTURAL ETHYL ALCOHOL CONTAINED IN CERTAIN SPIRITUOUS BEVERAGES."

O. SPIRITUOUS BEVERAGES AND VERMOUTHS ARE NOW INCLUDED IN THE SAFEGUARD CLAUSE PROVISIONS.

3. COPIES OF FULL TEXT OF PROPOSAL IN FRENCH ARE BEING MAILED TO R. SCHROETER, USDA/FAS/ITP AND E. CASEY, STATE/EUR/RPE. COPIES OF TEXT IN ENGLISH WILL BE AVAILABLE NEXT WEEK AND WILL BE FORWARDED.

4. OUR COMMISSION TECHNICAL LEVEL SOURCES EXPECT THAT IT WILL TAKE UP TO AT LEAST A YEAR TO GET THE MEMBER STATES TO AGREE TO A COMMON ORGANIZATION FOR ALCOHOL. ONLY FRANCE AND ITALY WITH THEIR HUGE

WINE-BASES ALCOHOL SURPLUSES ARE LIKELY TO PUSH FOR ACCEPTANCE OF THE COMMISSION PROPOSAL IN ITS PRESENT FORM. OTHER MEMBER STATES, ESPECIALLY THE UK, ARE LESS LIKELY TO BE SYMPATHETIC TO SUCH A PROTECTIVE SYSTEM FOR AGRICULTURAL-BASED ALCOHOL. END UNCLASSIFIED.

5. BEGIN CLASSIFIED. OUR CONTACTS IN THE COMMISSION'S WINE AND ALCOHOL DIVISION (GOURDON AND MOREL) TOLD US THAT THEY DID NOT WANT TO PROVIDE EXPORT SUBSIDIES ON WHISKEY IN THE PROPOSAL, BUT FELT COMPELLED TO DO SO BY PROTOCOL NO. 19 IN THE ACCESSION TREATY. THEY FEEL THAT INWARD PROCESSING ARRANGEMENTS ARE AN ADEQUATE MECHANISM TO ASSURE LOW-COST GRAIN TO UK WHISKEY PRODUCERS. MOREL TOLD MISSION OFFICER HE DOES NOT BELIEVE COMMUNITY WOULD EVER PROVIDE EXPORT SUBSIDIES ON WHISKEY TO THE UNITED STATES OR ANY OTHER THIRD COUNTRY. COMMENT: MOREL'S REMARKS WERE PURELY ON PERSONAL BASIS AND DO NOT REPRESENT ANY COMMISSION COMMITMENT TO EXERCISE DISCRETION IN EXPORT SUBSIDY POLICY ON ALCOHOL. THEY SHOULD NOT LEAD US TO EASE OUR CONCERN ABOUT WHISKEY EXPORT SUBSIDIES AND THE SEVERAL OTHER CAP PROVISIONS CONTRARY TO OUR INTEREST. END COMMENT.

6. ACTION REQUESTED. WASHINGTON WILL WANT TO CONSIDER THE LIMITED OFFICIAL USE

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ADVERSE CONSEQUENCES THAT WOULD RESULT FOR U.S. TRADE SHOULD ALCOHOL CAP BE APPROVED IN ITS PRESENT COMMISSION PROPOSED FROM; PARTICULARLY PROVISIONS RELATING TO RESERVED SECTORS, IMPORT LEVIES, EQUALIZATION TAXES, AND EXPORT SUBSIDIES. SINCE WE DO NOT EXPECT DECEMBER 20 AGRICULTURAL COUNCIL TO DO MORE THAN HAVE AN INITIAL EXCHANGE OF VIEWS ON THIS PROPOSAL, WE DO NOT BELIEVE A FORMAL REPRESENTATION IN CAPITALS AT THIS TIME IS URGENT, HOWEVER, REPRESENTATIONS BASED ON CAREFULLY CONSIDERED ANALYSIS OF EFFECTS ON U.S. TRADE INTEREST SEEM TO BE CALLED FOR AND SHOULD BE UNDERTAKEN EARLY IN NEW YEAR. IN MEANTIME, WASHINGTON MIGHT REQUEST EMBASSIES IN EC CAPITALS, IN CARRYING OUT REPRESENTATIONS ON OIL TAX RECOMMENDED IN REF. C, TO INDICATE AT SAME TIME THAT WE HAVE SEVERAL SERIOUS CONCERNS ABOUT ABOVE FEATURES OF NEW ALCOHOL PROPOSAL AND THAT WE EXPECT TO CALL GOVERNMENTS ATTENTION TO THESE IN MORE

DETAIL SOON. AT THAT TIME, WASHINGTON SHOULD CONSIDER  
DIFFERENTIATING BY MEMBER STATE ARGUMENTATION USED IN THESE  
DEMARCHES; E.G., STRESSING THREAT OF U.S. COUNTERVAILING  
DUTIES TO EC ALCOHOL EXPORTERS (PARTICULARLY UK) OR LOSS  
OF COMPETITIVENESS TO PHARMACEUTICAL PRODUCERS (GERMANY)  
FROM BEING FORCED TO USE HIGHER-PRICED AGRICULTURAL ALCOHOL.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** RAW MATERIALS, COMMITTEE MEETINGS, TRADE CONTROLS, ALCOHOLIC BEVERAGES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 DEC 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** morefirh  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
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**Document Number:** 1976ECBRU12139  
**Document Source:** CORE  
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**Drafter:** n/a  
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**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 EC BRUSSELS 11775, 76 EC BRUSSELS 9145, 76 EC BRUSSELS 118  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** morefirh  
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**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
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**TAGS:** EAGR, ETRD, EPAP, EEC  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006